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In order to establish a new Communist banking system it was necessary to liquidate the old banking structure. The Communists found it easy to achieve this aim in the Central-South Region because there were only a few foreign banks in Hankow and Canton; most of the modern commercial banks in these two cities and in other interior cities were merely branches of those established in Shanghai; the native banks and a few locally registered commercial banks throughout the whole area were poorly capitalized.

When the Communists assumed authority in this area they ordered to be closed all branches of the Central Bank of China and the Farmers Bank of China two government banks established by the Nationalist Government. The branches of two banks jointly financed by government and private interests, the Bank of China and the Bank of Communications, also established before the Nationalist regime, were fitted into the new system. This was followed by the gradual elimination of the native banks and a few locally registered commercial banks. To force their liquidation, the Communists required them to increase their capital, as set forth in new banking regulations, and imposed cumbersome control measures. Most of the banks were unable to increase their capital and found it unprofitable to continue operation under the new controls. The few surviving banks in Hankow were ordered to organize a syndicate and operate jointly. As a result of the merger of all private banks in Shanghai into one Joint State-Private Bank. all of the branches of the merged banks in Central-South China were amalgamated, and the syndicated banks in Hankow were later ordered to merge with the Hankow branch of the Joint State-Private Bank. The two foreign banks, the Hong Kong and Shanghai Banking Corporation and the Banque de l'Indo-Chine, first withdrew from

Hankow and then from Canton.

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F. Joint State-Private Bank

When the merger of private banks took place in December 1952, the locally chartered small private banks in Hankow and Canton and other cities and the local branches of small banks had all been closed down. The only ones still in operation were branches of the big private banks in Shanghai: eleven in Hankow, eight in Canton, and smaller numbers in other important cities. Following the merger, all branch banks in Hankow, Canton, and Changsha were amalgamated into one unit as branch offices of the Joint State-Private Bank; branch banks in other cities were ordered to close.

The functions of the Joint State-Private Bank are as follows: (1) to handle accounts of private enterprises; (2) to extend short term credits to private enterprises. subject to the advice of the People's Bank; (3) to handle overseas Chinese' remittances through the branches of component banks still operating in Hong Kong for the account of the Bank of China and to handle inland remittances; and (4) to accept savings deposits for the account of the People's Bank.

The way amalgamation was conducted in Hankow furnishes an example of the relentless attitude taken by the Communists towards private banks, and of the pitiful position in which this jointly operated bank has been placed. The assistant manager of the Hankow branch of the People's Bank was appointed to serve concurrently as manager of the business department of the Joint State-Private Bank, assisted by four assistant managers appointed from the staff of the former private banks. Each component bank

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conducts its former business at a single counter, identified with the name of the former bank; only 40 per cent of the old staff were re-employed, and the important positions were given to new employees sent from the People's Bank or to the so-called activists. 652 453

It is evident that this bank is only a department of the People's Bank, created to deal with private enterprises, and will be dissolved when most of the industry has been converted to joint enterprises and when private commerce will have been full exterminated.

G. Credit Co-operatives

At the bottom of the Communist banking pyramid are the credit co-operatives. Their establishment and operation, at earlier stages, seemed to have the welfare of the peasants in mind; rural credit was to be extended through co-operatives. Now emphasis has shifted, and the Communists try to attract peasants' savings deposits and utilize them to subsidize those in need. Moreover, the government is now attempting to contract its note issue, increased by government purchases of grain and cotton, by forcing farmers to deposit the proceeds of their sales with credit co-operatives. 452 474

There are three types of credit co-operatives: (1) credit co-operatives, the highest level of co-operative organization, having members and directors; their financial resources consist of members' capital and deposits; (2) credit departments, attached to supply and marketing co-operatives which have neither members nor independent capital and which

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III. BANKING OPERATION

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Although there are several special banks in the Communist banking system, they are merely arms and limbs of the People's Bank of China from which policy and resources spring. All banks operate as one body.

The operations of all banks are designed to draw cash funds from the hands of individuals, firms, and organizations, and to control all credits In this way the use of cash will be minimized, all receipts and payments will be handled through bank accounts, and the People's Bank will, in fact, become a central clearing house for the national economy.

A. Cash Control

All public organizations and enterprises must deposit all their cash holdings, excepting small sums as permitted by the authorities, in the local offices or agencies of the People's Bank; all payments, excepting salaries and wages and purchases of products in rural areas, must be made by check. All persons engaged in business must deposit the net balance of each day's proceeds from transactions into their accounts in the bank and must meet their purchases with checks. Under no circumstances may cash be used. All persons in possession of cash exceeding PB$2 million (about US$80) must deposit their holdings in the banks.[7]

A differential annual interest rate, announced

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7. Cheng Chu-yüan, op. cit., p. 84.

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in January 1954, is paid on deposits;[8] to state enterprises, 2.52 per cent; to joint state-private enterprises, 3.24-7.2 per cent; to private enterprises for current deposits, 5.10-5.40 per cent; and for time deposits, 9.0-14.4 per cent.

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In order to attract scattered funds held by individuals and prevent them from holding cash beyond the fixed limit, the People's Bank, in addition to sub-branches and agencies, has savings receiving and paying stations in residential quarters of each city. Officers of these stations visit residents frequently to collect their savings. In villages, People's Bank's agencies invite local leaders to organize savings promotion committees to do the work of propaganda and persuasion. By such means most families are forced to open savings accounts with banks. High interest rates of 5 per cent to 5.4 per cent for current savings deposits and 9 per cent to 14.4 per cent for fixed savings deposits are paid.[9]

Bank deposits in Central-South China used to rank last, having totaled only one-sixth of those deposited in East China. This was not only because of the lack of banking facilities, but also because the people of Kwangtung, the richest province in this area, preferred to hold banknotes issued by the foreign banks in Hong Kong rather than to deposit their funds in Chinese banks. Although the Communists boast that as a result of their promotion of savings deposits one out of every six persons in Canton now has a savings bank account, the amount of total

8. Jen-min Jih-pao [People's Daily], Peking, January 1954.

9. Chung-kuo Ching-chi Nien-pao [China Economic Annual], No. 1, Tokyo, China Research Institute, 1952.

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savings deposits in Central South is not available.

The Communists regard overseas remittances to families of overseas Chinese in Kwangtung as an important source of deposits. Each family receiving remittances has to open a bank account, and always find drawing on it difficult. This has resulted in a decrease of remittances.

The government has attempted to attract to the bank the plentiful funds received in lump sums by peasants after they sell their harvest of grain and cotton to the government monopoly. The bait for deposits in the banks or credit co-operatives is a very high interest rate; it is 14.4 per cent for deposits under three months and 18 per cent for those of more than three months. But after the winter of 1954, only in Kiangsi Province did the deposits reach 30 per cent of the purchase proceeds; they were only 5 per cent in Honan Province, and much less in Hunan, Kwangtung, and Kwangsi.[10] Some peasants were afraid to expose their cash receipts, and others prefer to hoard commodities.

Different forms of bank transfers of funds within one city or between two different places are available. The limit of cash a person may legally carry when travelling is limited to PB$1 million, old currency (about US$40).[11]

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10. Ta-kung Pao [Ta-kung Daily], Tientsin January 3, 1955.

11. Cheng Chu-yüan, op. cit., p. 84.

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B. Credit Control

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As the Communist banking system developed, the People's Bank has become the only source of bank credit. Branches of the People's Bank are authorized to extend short-term credits to state enterprises, production units attached to armed forces, and co-operatives and private enterprises at places where there is no Joint State-Private Bank. State enterprises and public organizations short of working capital can apply for short-term (one year) credits provided the bank approves their financial statement and plan of repayment. Large private industries which are considered beneficial for the national economy, have promise of further development and, having deposited all their funds in the bank, can obtain a continuing supply of credits under a production and financial plan approved by the bank. Smaller private industrial and commercial enterprises can apply for a fixed amount of credit on condition that they have accounts with the bank and disclose their financial condition to the bank. Any credits must be used for the purpose defined in the application.

The bank's interest rate policy follows the principle of "cheaper for public than for private enterprise," and, "cheaper for industrial than for commercial enterprise." Annual interest rates for loans announced in March of 1955, are 5.58 per cent for public industry, 8.28 per cent for public commerce, 10.80-19.80 per cent for private industry, and 16.20-23.40 per cent for private commerce.

Aiming to eliminate non-bank credit, which provides a way of bypassing the bank's control, th

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government had prohibited public enterprises to purchase on credit. But, in view of the general failure to observe this prohibition, a conference was recently convened to discuss ways of completely eliminating purchases on credit between all public organizations.[12] The conference is to reaffirm the government's determination on this subject.

According to Communist policy, capital investments should be provided by the government in budget appropriations; therefore, no banking funds are to be used for long-term credit.

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Rural credit funds were almost entirely provided by the People's Bank; the extension of credit was mostly made through the credit co-operatives. Loans were to be repaid with the proceeds of compulsory sales of grain and cotton, which the peasants were forced to deposit with the co-operatives. The co-operatives have been able to attract few deposits besides these proceeds.

The amount of credit extended by the co-operatives was extremely small. For example, Communist newspapers report that 9,000 co-operatives in Hunan Province granted PB$49 million of credit in June 1954, averaging 5.5. million (US$220.) from each co-operative. One village in Hupeh Province, having suffered a flood in mid-1954, obtained PB$ 21 million from 3 co-operatives for 183 farm households, averaging PB$7 million (US$280.) granted by each co-operative and PB$114,000 (US$4.56)[13]

12. Ta-kung Daily, Tientsin, May 7, 1955.

13. These figures are in the pre-March 1955 old currency. See People's Daily, Peking, Jul. 13, 1954.